

Updated Draft of the Comprehensive Fiscal Analysis of the Town of Olympic Valley

Placer County LAFCO
Wednesday, August 12, 2015



Recap

- May 21 Preliminary Draft Released to Public
- June 10 Revised Preliminary Draft at Workshop
- July 24 Update Draft CFA Transmitted

Since June 10

- Comments Received from:
 - Commission and Executive Officer
 - Proponents & Opponents to Application
 - County Staff
 - General Public

Issues Addressed

- Main Corrections
 - Computation of cumulative fund balance
 - Potential revenue neutrality payment
- Refinements & Clarifications
 - 60% of TOT Used by County (p 31)
 - Revenues & Expenditure Changes (~\$100-300k annually)
 - Reflecting General Fund Reserve Balance
 - Comparison cities vs. salary analysis (p 10-11)
 - Additional documentation on analysis (contingency, salaries, etc)
- Scenarios (Growth and TOT)

Scenarios Considered

- What Occurs with TOT
 - Scenario 1: 2% for Infrastructure/Region
 - Scenario 2: 6% for Infrastructure/Region
- Historic Growth Forecast (New)
 - Scenario 3: 2% for Infrastructure/Region
 - Scenario 4: 6% for Infrastructure/Region
- Plus, Alternatives in CFA

Approach & Methodology

- Independent fiscal analysis for LAFCO to evaluate financial feasibility
- Projection of future costs and revenues under existing level of services
- Collection and analysis of base year costs and revenues
- Evaluate potential development, growth, and other factors

Town's Plan for Services

- Succeed County as primary provider of municipal services
- Other agencies not affected
 - Squaw Valley PSD and Tahoe City PUD
 - School Districts, other special districts, regional services
- Maintain existing level of services

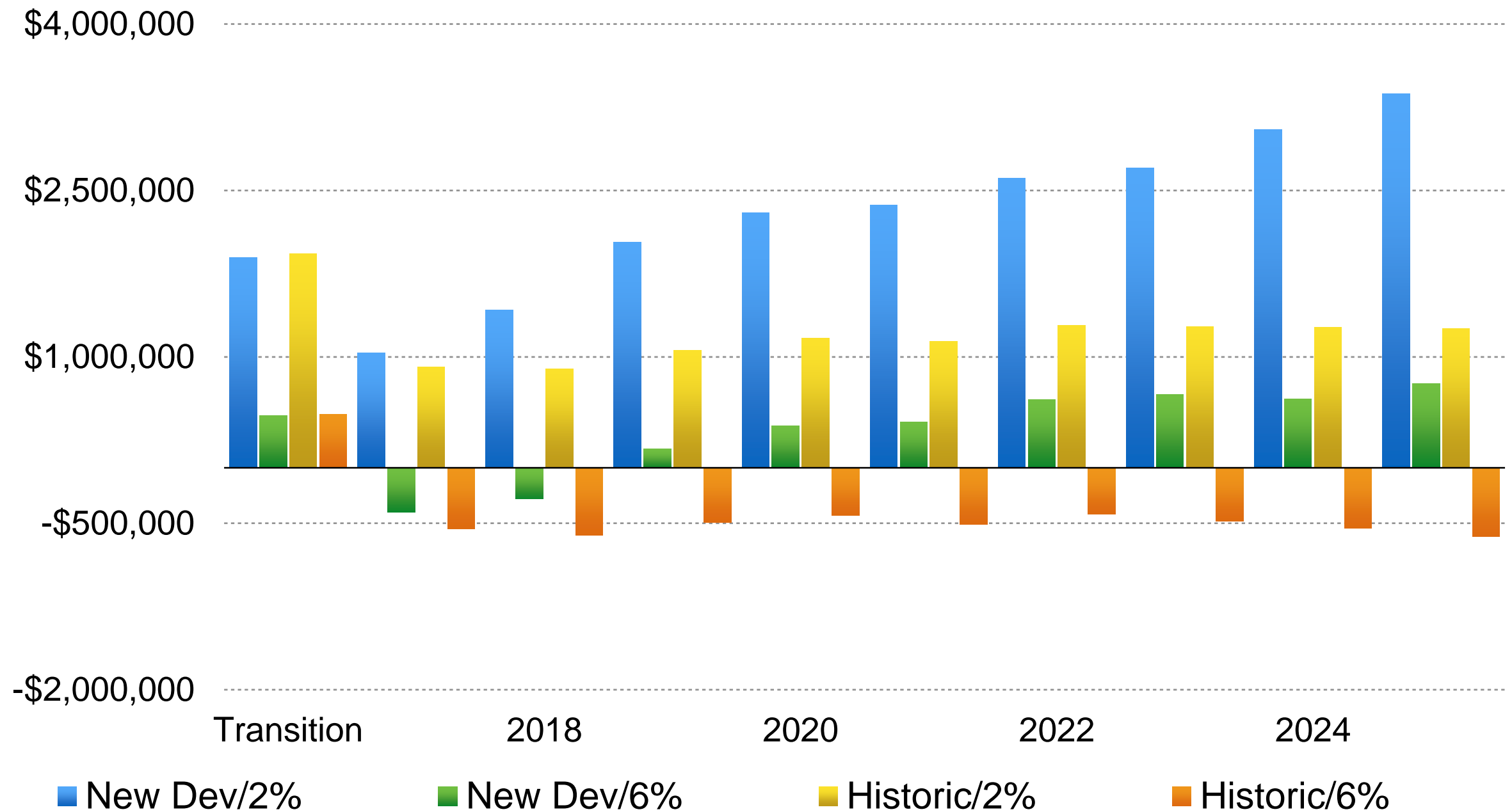
Findings

July 24, 2015 Draft of Comprehensive Fiscal Analysis

Key Conclusions

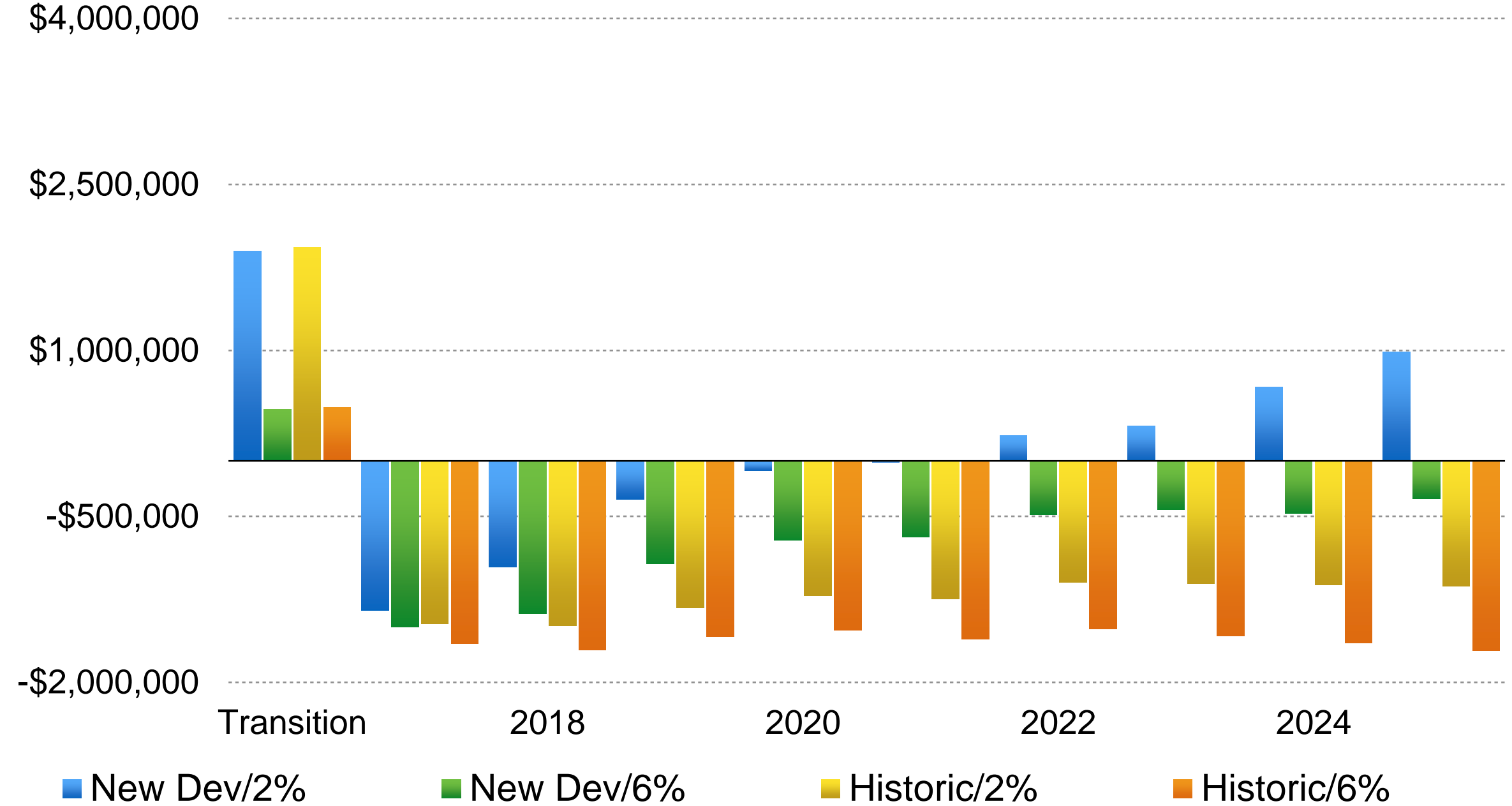
- Insufficient revenues to cover costs, revenue neutrality and reserve on all scenarios
- Potential of relatively large revenue neutrality payments
- Any reserve would not be feasible (fund balance negative most years)
- Significant improvement in figures would be required to be feasible

Net Revenue/Deficit Before Revenue Neutrality & Reserve

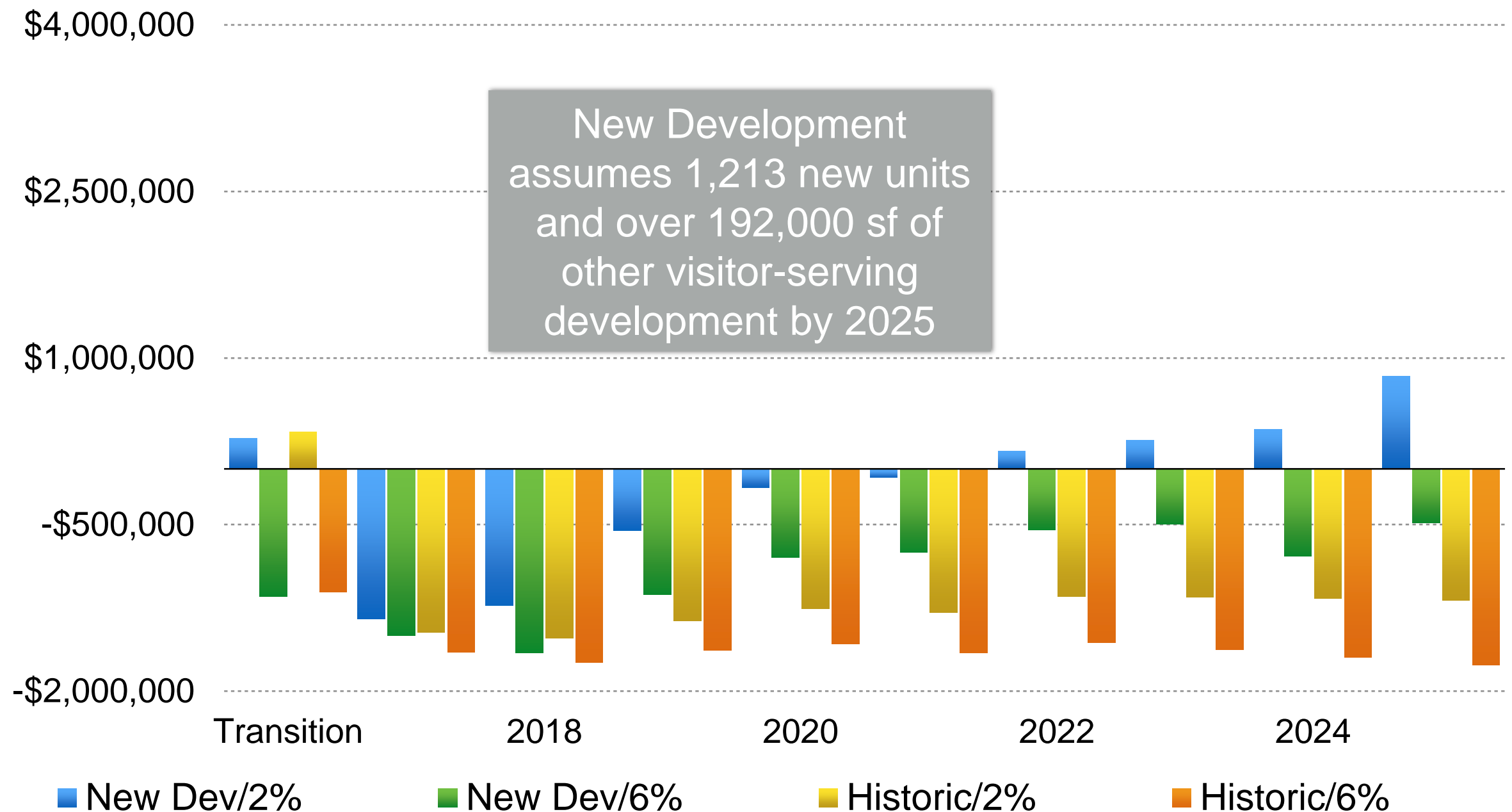


Net Revenue/Deficit

After Revenue Neutrality, Before Reserve



Net Revenue/Deficit After Revenue Neutrality & Reserve



General Fund Reserves

- Uniquely small town
- High visitor impacts (~10x resident population)
- Heavily reliant on visitor economy to support operating costs
- Recommend reserve of at least 30% (>\$1.6 million)

Projected General Fund Deficits by 2025

Scenario	w/o Rev. Neut & Reserves	After Rev. Neut, Before Reserve	After Rev. Neut & Reserves
1) New Dev/2%	\$22,784,740	\$1,341,044	(\$1,479,130)
2) New Dev/6%	3,406,280	(6,479,739)	(9,292,353)
3) Historic/2%	12,179,284	(9,264,412)	(11,225,312)
4) Historic/6%	(4,165,556)	(14,051,575)	(16,012,474)

Takeaways

- Feasibility would likely require:
 - Retention of most TOT (away from regional uses today)
 - Reliance on potential new development
 - Large reduction in revenue neutrality payments

Other Findings

- Significant amount of new development assumed to generate projected revenues
- Road Fund not adequately funded
- Alternatives also not feasible
 - Removing properties
 - Consolidation of Town with SVPD

Response to Proponents Letter

Contingency

- Proponents allege cost contingency should not be based on 10 percent of annual expenditures, citing 2002 OPR Guidelines
- Use of 10% contingency for unanticipated expenditures is exactly what has been included in recent CFAs (Wildomar, Oakhurst, East LA, Eastvale, Menifee, Jurupa Valley). Arden Arcade and Rancho Cordova had a smaller contingencies, but over a much larger budget, but also used the annual allocation method.
- SCO Review of Issue (Wildomar, July 2007) concluded “...*that the incorporation guidelines published by the OPR do not have the force of statute or regulation, even though the OPR is considered an authoritative source for the preparation of CFAs.*”
- OPR Guidelines state their purposes are to serve as *the “minimum statewide guidelines for the incorporation process”* and are “*advisory*” and therefore should not be narrowly interpreted
- Conclusion: OV CFA consistent with SCO review conclusions and best practices, not in violation of law or guidelines

General Fund Reserve

- Proponents believe reserve should be based on expenditures and not revenues, and less than 30%, citing OPR Guidelines
- 2002 Guidelines do not account for loss of VLF revenue that previously provided a bump in revenues in initial years; reserve amounts would need to be higher to accommodate for that loss.
- Smaller cities would naturally have a larger percentage revenues/expenditures in reserve. Data analyzed in CFA for similar cities supports this level of a reserve (\$2-3 million minimum, regardless of size). Research shows varying use of revenues or expenditures in California Society of Municipal Finance Officers surveys
- GFOA states as a best practice while a minimum of 2 months (17%) reserve they also state that “a government’s particular situation often may require a level of unrestricted fund balance in the general fund significantly in excess of this recommended minimum level.
- SCO Review of Wildomar CFA also conclude that “*while it may be preferable to have a study of comparable new cities, this may be somewhat subjective since actual comparable new cities may not actually exist*”
- Conclusion: Only using a reserve of less than 10% would “violate” the Guidelines, and the unique circumstances of the proposed city (16th smallest in California) heavily reliant on a transient economy mandate appropriate deviation that would not apply to all cities

Property Tax Revenue

- Proponents allege exclusion of \$183,555 of indirect costs from property tax transfer computation
- Figure cited is not indirect costs for municipal services, but for Countywide services (tax collector, auditor controller, etc) that do not transfer therefore must be excluded.
- Cost is also 2014-15, not base year (incorrect source document referenced by proponents)
- Conclusion: CFA correctly computes amount of property tax transfer by excluding services that do not transfer to City

2014-15 OV Expenditure Estimates from Placer Co.

Note: Detail regarding general description of services, personnel required and breakdown of costs are included with each departmental response attached herein.

Municipal Services:

County Department	-----Personnel-----		-----Other Costs-----			Total Costs	Total Revenues	
	Total FTE	Salaries / Benefits	Supplies / Services	Capital	Indirect / Overhead			
Community Development Resource Agency (CDRA)	1.2	\$ 140,049	\$ 5,775	\$ -	\$ 100,037	\$ 245,861	\$ 179,277	Revenues based on County fee structure. OV would have different structure.
Public Works	0.5	\$ 80,959	\$ 219,012	\$ -	\$ -	\$ 299,971	\$ -	OV would receive their own calculated portion of HUTA & LTF revenues
Public Works - Transit	3.3	\$ 304,413	\$ 194,080	\$ 368,701	\$ 43,481	\$ 910,675	\$ 297,166	
Sheriff	6.5	\$ 1,249,494	\$ 177,948	\$ -	\$ -	\$ 1,151,594	\$ -	
Facilities - Parks	0.3	\$ 3,650	\$ 39,221	\$ 328,000	\$ -	\$ 370,871	\$ 36,407	Capital costs could potentially be paid from County Parks Mitigation Fees
HHS - Animal Services	0.0	\$ 10,758	\$ 2,613	\$ -	\$ 1,531	\$ 14,902	\$ 478	
Total Municipal Services:	11.7	1,789,323	638,649	696,701	145,049	2,993,874	513,328	

Countywide Services:

County Department	-----Personnel-----		-----Other Costs-----			Total Costs	Total Revenues	
	Total FTE	Salaries / Benefits	Supplies / Services	Capital	Indirect / Overhead			
District Attorney	0.2	\$ 35,744	\$ 10,566	\$ -	\$ -	\$ 46,310	\$ -	
County Assessor	0.3	\$ 41,064	\$ 2,772	\$ -	\$ -	\$ 43,836	\$ 1,852,104	Property Tax - 100% of County General Fund Share only
Health and Human Services	2.6	\$ 317,572	\$ 178,988	\$ -	\$ 89,489	\$ 586,049	\$ 457,032	Animal Services shown above
Agricultural Commissioner	0.0	\$ 2,000	\$ 345	\$ -	\$ -	\$ 2,345	\$ 1,240	
Probation	0.3	\$ 31,779	\$ 10,360	\$ -	\$ 9,709	\$ 51,848	\$ -	
Child Support Services	0.0	\$ 3,131	\$ 1,455	\$ -	\$ 674	\$ 5,260	\$ 5,260	
Treasurer	0.1	\$ 361	\$ -	\$ -	\$ -	\$ 361	\$ 2,131	Business Licenses
A-87 costs	0.0	\$ -	\$ -	\$ -	\$ 183,555	\$ 183,555	\$ -	Population apportioned share of CEO, County Counsel, Treasurer, Auditor, Clerk/Recorder, and Assessor.
Total Countywide Services:	3.5	431,651	204,486	-	283,427	919,564	2,317,767	

Property Tax Revenue

- Proponents believe CFA should rely on higher estimates of potential new construction sales prices
- HEC study was not prepared for purposes of this CFA and cannot be deemed authoritative simply because it was prepared for another public agency for different purposes.
- RSG cannot substantiate a basis for such figures in OV, based on existing market conditions. Market for higher figures simply does not support higher values in Olympic Valley.
- While it may be possible – that optimistic possibility is not a realistic foundation for the CFA revenue forecast. No case can be made that the values will be higher than current market given the current uncertainties about the proposed development, timing, and market conditions. No specific projects have been proposed at this time.
- Conclusion: any development forecast is highly speculative at this time, as the projects in question are not in the development horizon for which market values above the current market can be substantiated

Law Enforcement

- Proponents allege costs have been inflated in three ways: 1) Level of service double existing level of service, 2) Adjustment unwarranted for future growth, and 3) Traffic enforcement officer exceeds level of service
- Sheriff department provided level of service for existing and future contract, costs are largely comparable
- Common in incorporations for law enforcement costs to be higher with dedicated personnel in contract service model. SCO Reviewed LOS and cost issue (East LA, 2011) with a lower cost than what County estimated and concluded methodology was unreliable and ultimately deferred to Sheriff cost
- Currently annual cost for Sheriff services (without dedicated personnel and traffic) is comparable to contract (\$1.2m). If existing LOS is lower, then costs would be overstated too – resulting in a dollar-for-dollar increase in potential revenue neutrality costs, and no actual savings.

Law Enforcement

- June 2015 Preliminary Draft CFA made NO adjustment for growth in the nonresident population and new development
- Over 1,200 new units and 200k sf of new construction could occur; reasonable to conclude that this would generate new demand for services
- Visitor population (day trips, additional overnights, and employees) will create additional costs – albeit at a lesser rate than a permanent resident
- Lesser cost is possible with lesser growth (as shown in Scenarios 3 and 4)
- Conclusion: Law enforcement costs project potential contract costs, reflective of existing level of service, and factor growth should significant development occur. Reductions in future costs would likely lead to reductions in existing costs, therefore increasing potential revenue neutrality payments

Concluding Remarks

July 24 Draft of Comprehensive Fiscal Analysis

